

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT)	
HEAT AND POWER COMPANY TO ADJUST)	CASE NO. 92-346
GAS RATES)	

O R D E R

IT IS ORDERED that The Union Light, Heat and Power Company ("ULH&P") shall file the original and 15 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due no later than November 4, 1992.

1. In Case No. 90-041¹ ULH&P was instructed to undertake a comprehensive study to determine its optimal propane inventory

¹ Case No. 90-041, An Adjustment of Gas and Electric Rates of The Union Light, Heat and Power Company, Rehearing Order dated July 19, 1991, page 5.

level. The study was to include, but not be limited to, an analysis of historic usage, utilization for peak day needs, capacity requirement studies, and econometric modeling.

a. Explain the status of propane inventory study.

b. Provide copies of the study, including any documentation supporting the study's conclusions.

c. If the study has not been performed, provide a detailed explanation as to why ULH&P has not complied with the Commission's Order in Case No. 90-041.

2. Schedule A-3.8 of the Application lists the dividends paid by ULH&P for the past five fiscal years. For the year ending December 31, 1991, ULH&P paid dividends of \$5 per share as compared to \$3 per share in the previous two fiscal years. Provide a detailed explanation of why it was determined to be appropriate to increase the dividend payment by 67 percent, given the fact that ULH&P was faced with a significant increase in its purchased power cost and had already filed Case No. 91-370² seeking rate relief.

3. Schedule B-5.1 of the Application lists the accounts ULH&P has included in the Allowance for Working Capital portion of its rate base. As shown on this schedule, ULH&P has included as Prepayments the Kentucky Public Service Commission Assessment ("PSC Assessment") and Auto License Taxes ("Auto Taxes"). Provide the following information:

² Case No. 91-370, Application of The Union Light, Heat and Power Company to Adjust Electric Rates.

a. Explain whether the Auto Taxes represent only the expense to re-license ULH&P's vehicle fleet, or if the property taxes on the fleet are also included in the Auto Taxes.

b. If the Auto Taxes include the property taxes on ULH&P's vehicle fleet, prepare a breakdown by month of the Auto Taxes Prepayment balance between license renewal and property taxes. This breakdown should show ULH&P in total and the amount applicable to gas operations.

c. Explain in detail why ULH&P recognizes its property taxes through accruals to Account No. 236, Taxes Accrued, rather than using a prepayment treatment.

d. Explain in detail why ULH&P should be allowed to earn a return on, as well as recover as expenses, its PSC Assessment and Auto Taxes.

4. Schedule B-6 of the Application includes a list of other items ULH&P proposes to incorporate in its rate base. The list includes the unamortized balances for gas rate case expenses in Case No. 90-041 and the gas portion of the management audit expenses. However, the amounts shown as the unamortized balances for these two items, which are calculated on WPB-6c and WPB-6e, are the total amortization amounts for the 21 months since Case No. 90-041. Provide the following information:

a. Explain why the amortization amounts for these two items have been presented as the unamortized balances.

b. Explain in detail why ULH&P should be allowed to earn a return on the unamortized balances for these two items in addition to the recovery of the expenses.

5. The calculation of the unamortized rate case expense from Case No. 90-041 is shown on WPB-6c. On this workpaper, ULH&P indicates that the gas portion of the total rate case expense is 30 percent. However, in Case No. 90-041, Schedule C-3.3 of that application, ULH&P indicated that the gas portion of the total rate case expense was 33.3 percent. Provide the following information:

a. Explain in detail why ULH&P has changed the allocation percentage to the gas operations for the rate case expense.

b. Prepare a revision to WPB-6c showing both the amortization in gas rate case expense of \$25,000 and the unamortized balance as of test year end. Also, extend this workpaper showing the amortization of the expense and the unamortized balance through March 31, 1993.

6. The calculation of the unamortized management audit expense is shown on WPB-6e. Prepare an extension of this workpaper showing the amortization and unamortized balance through March 31, 1993.

7. Schedule C-3 of the Application is a summary of the revenue and expense adjustments proposed by ULH&P including the related impacts on state and federal income taxes. A review of this schedule shows that ULH&P did not compute an income tax effect for its proposed adjustment to depreciation expense. In addition,

the tax effects from the increase to injuries and damages were shown as increases in taxes, rather than decreases, and the state income tax rate applied was not 8.25 percent. Provide the following information:

a. Explain in detail why ULH&P did not calculate an income tax effect for its proposed adjustment to depreciation expense.

b. Prepare a revision to Schedule C-3 which corrects the income taxes related to the proposed adjustment to injuries and damages, and the effects on the totals shown for Schedule C-3.

8. Schedule C-3.2 of the Application shows ULH&P's proposed adjustment relating to the early retirement and involuntary separation of some of its workforce. The proposed adjustment was calculated on WPC-3.2a and WPC-3.2b. Provide all supporting workpapers, calculations, assumptions, and other documentation which supports each amount shown on WPC-3.2a and WPC-3.2b.

9. In connection with the workforce reductions, ULH&P has proposed to amortize the costs of the early retirement and involuntary separation over a three-year period. ULH&P has also proposed that the unamortized balance of these costs be included in rate base. The Commission addressed a similar situation when dealing with downsizing costs in Case No. 90-158.³ Provide the following information:

³ Case No. 90-158, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, Rehearing Order dated September 30, 1991.

a. Explain in detail why ULH&P believes a three-year amortization period is appropriate for these costs.

b. Explain in detail why ULH&P believes that it should earn a return on the unamortized balance of these costs.

c. Explain whether ULH&P was aware of the Commission's decisions concerning downsizing costs that were part of Case No. 90-158.

d. Explain in detail why the Commission should not treat the workforce reduction costs ULH&P plans to incur in a manner similar to that done in Case No. 90-158.

10. The testimony of Donald I. Marshall contains a discussion concerning the early retirement and involuntary separation scheduled to take place at ULH&P. Mr. Marshall indicates that the amounts included in Schedule C-3.2 reflect estimates of the dollar impact, but actual amounts will not be known until later in 1992 or in early 1993. The early retirement period runs from September 1 through October 31, 1992. The involuntary separations are related to a corporate reorganization which should be completed by January 1, 1993. Concerning these workforce reductions:

a. By November 30, 1992, provide the actual costs and impacts of ULH&P's early retirement program. The information shall include, but not be limited to, an identification of the different costs incurred for the program, the amount of any immediate cash outlay, program costs which reflect accounting accruals, and a

schedule of future cash outlays related to the accounting accruals showing the number of future years and yearly amounts.

b. By January 19, 1993, provide the actual costs and impacts of ULH&P's involuntary separation action and its corporate reorganization. Provide the same information as has been requested concerning the early retirement program.

11. Mr. Marshall's testimony references that a self-analysis study is being performed for ULH&P and its parent company, The Cincinnati Gas and Electric Company ("CG&E"), by Scott, Madden and Associates. Provide copies of the Scott, Madden and Associates report and/or study results as soon as they are available, but no later than January 19, 1993.

12. In Case No. 91-370⁴ the Commission expressed several concerns related to ULH&P's labor allocation practices. Provide a detailed explanation discussing any changes ULH&P has made in its labor allocation practices since Case No. 91-370.

13. Schedule C-3.4 of the Application shows ULH&P's proposed increase to reflect the annualization of test year granted wage and salary increases. This adjustment includes an increase in ULH&P's contributions to the Savings Incentive Plan ("SIP") and Deferred Compensation and Investment Plan ("DCIP"). At page 29 of the Commission's May 5, 1992 Order in Case No. 91-370, the Commission determined that contributions to the SIP and DCIP were a function

⁴ Case No. 91-370, Order dated May 5, 1992, pages 25 through 28, and Rehearing Order dated June 11, 1992, pages 13, 14, and 24 through 26.

of the number of employees enrolled in the plans, the amounts contributed by participating employees, and ULH&P's required matching contribution rate, which is limited to the first 5 percent of the participating employee's base pay. The response to Item 44 of the September 16, 1992 Order indicates that this is still the case. Provide a detailed explanation as to why it is appropriate to calculate an increase in the SIP and DCIP contributions by simply applying a cost factor to the proposed wage and salary normalization.

14. ULH&P has provided data on regular hours, time and one half hours, and double time hours for the test year on WPC-3.4d through WPC-3.4o. Indicate whether these test year hours represent:

a. Hours worked by ULH&P personnel for ULH&P activities only.

b. Hours worked by ULH&P personnel for ULH&P activities and hours worked by ULH&P personnel for other CG&E or CG&E affiliate activities.

c. All hours charged to ULH&P, including hours worked by ULH&P personnel, CG&E, or CG&E affiliates entities.

15. Provide the same information shown on WPC-3.4e for the months of July through September 1992.

16. Prepare a detailed reconciliation of the total ULH&P (net) hours shown on WPC-3.4c with the hours shown on WPC-3.4n. If the reconciliation cannot be performed, explain in detail why this is the case.

17. Prepare a schedule showing the actual number of hours charged to CG&E or CG&E-affiliated entities by ULH&P and classified as "Accounts Receivable" during the test year. The schedule is to show the actual number of hours assigned or allocated each month, by labor group, and indicate to what entity the hours were assigned or allocated. If this schedule cannot be prepared, explain in detail why this is the case.

18. Prepare a schedule showing the actual number of hours charged to ULH&P by CG&E or CG&E-affiliated entities and classified as "Accounts Payable" during the test year. The schedule is to show the actual number of hours assigned or allocated each month, by labor group, and indicate the source of the hours. If this schedule cannot be prepared, explain in detail why this is the case.

19. The total ULH&P (net) hours shown on WPC-3.4b agrees with the total hours summarized on WPC-3.4d. If the hours summarized on WPC-3.4d reflect hours worked by ULH&P personnel for ULH&P activities only, explain in detail why these hours shouldn't be distributed only to operating expenses, jobbing and contract expenses, construction work in progress, and retirement work in progress.

20. The distribution of labor hours worked is shown on WPC-3.4c. Concerning this distribution:

a. Provide a detailed explanation discussing how the account distribution is developed. Include copies of all

workpapers, calculations, assumptions, and other documentation used to develop the distribution.

b. Provide an explanation of whether this distribution is prepared separately for ULH&P departments or whether it is prepared on a CG&E total basis and the ULH&P values reflect an allocation of the total corporate distribution.

c. Provide an explanation discussing when ULH&P or CG&E last determined that the labor activity in the month of May was the most appropriate or representative to use for the labor distribution.

21. The testimony of John P. Steffen includes information concerning ULH&P and CG&E labor cost allocation practices. Beginning at page 9, Mr. Steffen's testimony references and explains the material included on Schedule C-11.1 of the Application, pages 1 through 5 of 5. However, references to specific line numbers do not appear to correspond with the line numbers on Schedule C-11.1. Provide corrected references to the Steffen testimony corresponding to the appropriate line numbers on Schedule C-11.1.

22. According to Mr. Steffen's testimony, the amounts shown on Schedule C-11.1 as Total Labor Dollars represent only the labor dollars for the employees of ULH&P. The amounts shown as O & M Labor Dollars reflect net amounts to expense after billings to and from CG&E and CG&E affiliates. Concerning these dollar amounts:

a. Provide a detailed explanation of the purpose of computing a "Ratio of O & M Dollars to Total Labor Dollars" when the basis of the two amounts is not the same.

b. Provide the amounts for the Total Labor Dollars which reflect the net amounts of all labor costs after billings to and from CG&E and CG&E affiliates. Provide this information in total and for each group included on Schedule C-11.1 for the test year and calendar years 1990 and 1991. If this information cannot be provided, explain in detail why this is the case.

23. Included on Schedule C-11.1 is information concerning employee benefits and payroll taxes. Provide the following information:

a. Explain whether the information contained on lines 25 and 31 reflects only amounts for ULH&P employees or if the net effects of billings to and from CG&E and CG&E affiliates are included.

b. Explain whether the information contained on lines 26 and 32 reflects only amounts for ULH&P employees or if the net effects of billings to and from CG&E and CG&E affiliates are included.

c. If the information contained on lines 25 and 26 or lines 31 and 32 is not on the same basis, explain in detail the purpose of calculating ratios of expense to totals for employee benefits and payroll taxes.

24. On pages 5 through 8 of Mr. Steffen's testimony is a discussion of the time studies performed for the time allocation of Administrative and General employees. Concerning these studies:

a. Explain in detail what documentation is maintained to support the "typical" month allocations of time reported by employees on the time study, shown as Schedule JPS-1 in Mr. Steffen's testimony.

b. Explain in detail how an employee can condense a twelve month historical period of actual work into a "typical" month when:

(1) The employee did not work for CG&E for the entire 12 month historical period.

(2) The employee experienced a significant reassignment of job responsibilities or activities during the 12 month historical period.

(3) The employee is aware of a significant change which will occur in the near future concerning his assignments.

c. Explain the impact, if any, the announced early retirement program and corporate reorganization with involuntary separations will have on the time study prepared in October 1992.

d. On page 7 of the testimony, lines 4 and 5, it is stated, "Each of the 27 activities is allocated on actual historical data." Identify this historical data.

e. Provide the following information concerning the 1991 Administrative and General employee time study:

(1) The number of responding employees who identified only 1 activity as part of their job responsibilities.

(2) The number of responding employees who identified 2 or 3 activities as part of their job responsibilities.

(3) The number of responding employees who identified more than 3 activities as part of their job responsibilities.

f. On page 8 of the testimony, lines 3 through 6, it is indicated that the employee's supervisor signs the time study for each employee and that this signature validates the information reported. Provide a detailed explanation of the review process undertaken by the supervisor to ensure the accuracy of the information reported on the time summary. Also, provide the standards or policies established by CG&E concerning this level of supervisory review.

g. Provide copies of any departmental variance explanations prepared for the 1991 time study.

25. On page 10 of Mr. Steffen's testimony, at line 25, he states, "Overtime hours are charged to the source of the overtime." Address how the following situations would be handled:

a. Assume an employee of ULH&P works 2 hours of time and one half overtime for gas operations, and that the work is not related to a capitalized project. Provide an explanation of how current labor allocation practices will assign the overtime to ULH&P.

b. Assume an employee of CG&E works 2 hours of time and one half overtime for gas operations, the work is not related to a capitalized project, and 1 hour of the overtime is for ULH&P. Provide an explanation of how current labor allocation practices will assign the overtime to ULH&P.

26. On pages 11 and 12 of Mr. Steffen's testimony is an illustration of how the average hourly rate is used by ULH&P and CG&E. Using this illustration, assume that the crew is made up of 3 employees, 2 ULH&P employees and 1 CG&E employee. Further assume that one of the ULH&P employee wage rates is \$10 per hour and the other ULH&P employee and the CG&E employee wages rates are both \$9 per hour. Provide a step-by-step calculation of the average hourly wage rate and the amounts charged to ULH&P capital and expense projects.

27. Included in the testimony of Debra E. Bruegge is a discussion of the need to convert time and one half overtime work hours and double time overtime work hours to equivalent regular hours in order to properly price ULH&P's labor. However, there is no mention of such a conversion in Mr. Steffen's testimony. Provide an explanation of whether the conversion of overtime hours to equivalent regular hours is performed on a routine basis by CG&E and ULH&P or if it is only performed to determine labor expenses for rate-making purposes.

28. On page 16 of Mr. Steffen's testimony reference is made to the Commission ordering ULH&P to review its 1989 overtime expenses and explain how optimal staffing levels were determined.

On page 34 of the October 2, 1990 Order in Case No. 90-041, ULH&P was instructed to "[p]rovide a thorough analysis of its staffing level." (emphasis added) Provide an explanation of how the Labor Study filed by ULH&P on September 21, 1992 addresses the Commission's instructions. Also, explain why this Labor Study does not provide a determination of the optimal number of employees for ULH&P.

29. Provide a detailed explanation of why ULH&P did not propose an adjustment to its FICA expense related to its proposed wage and salary normalization.

30. In Case No. 91-370, the Commission adjusted expenses to reflect a reduction in its meter reading workforce. Based on information presented in that case, the reduction occurred during the test year presented in this case. Provide the following information concerning the reduction in meter reading workforce:

- a. The date the reduction became effective.
- b. The annual labor expense impact of the reduction, for ULH&P in total and specifically for the gas operations. Include the impacts on employee benefits and payroll taxes of the reduction.
- c. Explain why ULH&P did not propose a normalization adjustment for this workforce reduction.

31. Provide the status of the amortization of the Eagle Creek Aquifer. Include the unamortized balance as of test year end.

32. Schedule C-3.9 of the Application shows ULH&P's proposed adjustment to apportion certain taxes. Provide a detailed explanation of what the Cincinnati Earned Income Tax is and why it should be an expense included for rate-making purposes in Kentucky.

33. Schedule C-3.12 of the Application contains ULH&P's proposed adjustment to injuries and damages expenses. The calculation of the adjustment is shown on WPC-3.11a through WPC-3.11c. The adjustment reflects an historic average adjusted for inflation using the Consumer Price Index - Urban ("CPI-U"). Concerning the CPI-U values shown on WPC-3.11c:

a. Provide the workpapers or documentation which supports the CPI-U values shown on WPC-3.11c.

b. Provide an explanation of why the Federal Reserve Bank of St. Louis was used as the source of the CPI-U values instead of the United States Department of Labor, Bureau of Labor Statistics.

34. Schedule C-3.13 of the Application deals with ULH&P's proposal to eliminate revenues and expenses related to ULH&P propane operations. Included in the supporting calculation workpapers is a calculation shown on WPC-3.13e, which shows the test year propane gallons vaporized for CG&E and ULH&P. The workpaper shows that a higher percentage of propane was vaporized for CG&E during the test year than the percentage established in the ULH&P/CG&E contract on propane facilities. Provide an explanation of whether costs were assigned during the test year

based on the contract percentages solely or if the test year expense allocation was adjusted to reflect the actual utilization.

35. Schedule C-3.15 of the Application reflects ULH&P's proposed adjustment to normalize its health care expenses.

a. For each provider of health care coverage, provide copies of the notices which document the increase in policy premiums included in the proposed adjustment.

b. For each month of the test year, provide the total expense for ULH&P for the health care coverage of ULH&P employees only. Identify the account number(s) where the expense was recorded. Include an indication of how the total expense was allocated between gas and electric operations.

c. For each month of the test year, provide the total net expense charged to ULH&P for the health care coverage of employees related to the labor allocation categories of "Accounts Receivable" and "Accounts Payable." Identify the account number(s) where the expense was recorded. Include an indication of how the total expense was allocated between gas and electric operations.

d. If the information requested in parts (b) and (c) above are not available, provide a detailed explanation of why ULH&P could not provide the requested information.

36. Schedule C-8 of the Application includes a listing of Customer Service and Information Expenses. Several of the subaccounts listed for Account No. 908, Customer Assistance Expense, make reference to marketing. Provide the following information:

a. For each subaccount of Account No. 908 which refers to marketing, explain the nature of the transactions recorded in each subaccount.

b. For each of the subaccounts referenced in part (a), supply examples of the marketing information covered in these transactions.

c. ULH&P has proposed to remove the test year balances for subaccounts in Account No. 912, Demonstrating and Selling Expense, all of which refer to marketing activities. Explain in detail why a similar adjustment was not proposed relating to the marketing subaccounts of Account No. 908. Include specific instances where the transactions recorded in subaccounts of Account No. 908 differ with those in Account No. 912.

37. WPB-3.1a through WPB-3.1k show calculations made to determine amounts related to gas facilities devoted to other than Kentucky customers. Several of the calculations are based on an allocation percentage of 21.9 percent. Provide an explanation of why this percentage was used. Include the calculations, workpapers, assumptions, and documents used to determine the 21.9 percent.

38. WPB-5.1b is a calculation of the 13 month average balance of gas enricher liquids. Prepare a schedule for the 13 month period, in gallons, showing the beginning monthly balance of enricher liquid inventory, gallons added or withdrawn during a month, and the ending monthly balance of enricher liquid inventory.

39. WPB-5.1e shows the development of the factors to allocate the prepaid auto license taxes. Provide a detailed explanation of why the value of common automotive equipment was allocated using the number of gas and electric customers, rather than using the dollar value of the gas and electric automotive equipment.

40. WPC-2.2 contains the revenue and expense variance report for ULH&P's gas operations. For each of the accounts or subaccounts listed below, provide an explanation of the reason(s) for the change in the balance between the test year and the previous year.

a. Account No. 801-20, -21, -24, -38, 40, -55, & -58, Other Production Gas, pages 4 through 8 of 146.

b. Account No. 804-1, -7, -13, & -14, Nat. Gas Pur., pages 10 through 12 of 146.

c. Account No. 805, in total, Unrecovered Gas Pur., page 12 of 146.

d. Account No. 807, in total, Purchased Gas Expenses, pages 13 and 14 of 146.

e. Account No. 870, in total, Oper. Supv. Eng., page 15 of 146.

f. Account No. 892-0, Maint. of Services, page 43 of 146.

g. Account No. 892-13, Curb Box Adj. - Replace., page 44 of 146.

h. Account No. 893-3, Meter & House Reg. Install., page 46 of 146.

i. Account No. 4409, in total, State & Federal Income Taxes, page 50 of 146.

j. Account No. 4410, in total, State & Federal Deferred Income Taxes, pages 51 through 56 of 146.

k. Account No. 4411, in total, State & Federal Deferred Income Taxes - Credit, pages 56 through 63 of 146.

l. Account No. 4489, in total, Rev. Trans. Gas of Others, pages 67 and 68 of 146.

m. Account No. 4903, in total, Customer Records and Collection Expenses, pages 72 through 85 of 146.

n. Account No. 4920, in total, Administrative and General Salaries, pages 100 through 111 of 146.

o. Account No. 4921, in total, Office Supplies and Expenses, pages 112 through 126 of 146.

p. Account No. 4926, in total, Employee Pensions and Benefits, pages 129 through 136 of 146.

q. Account No. 4930-43, Accrued Employee Benefits, page 141 of 146.

r. Account No. 4931-8, Rents Equip. Info. Support, page 142 of 146.

41. A review of WPC-2.2 shows that ULH&P has expanded the number of subaccounts maintained for Account No. 880, specifically subaccounts 85 through 908 (pages 32 through 37 of 146). Provide a general description of the nature of these subaccounts and

explain the reason(s) these subaccounts were added during the test year.

42. Provide an explanation of why West Virginia property taxes, Account No. 4408-54 (WPC-2.2, page 49 of 146), should be included for Kentucky rate-making purposes.

43. A review of WPC-2.2, pages 84 and 85 of 146, reveals that ULH&P has added several subaccounts to Account No. 4903 during the test year. These additional subaccounts appear to track Account No. 4903 expenses for Florence and Covington specifically. Provide an explanation of the purpose for these new subaccounts and the reason(s) these subaccounts were added.

44. On page 94 of 146 of WPC-2.2 are test year amounts for Account No. 4908-54, Demand Side Management Programs. Provide the following information:

a. A schedule of the various demand side management ("DSM") programs reflected by the test year expenses.

b. Explain whether the test-year level of expense reflects the on-going level of DSM expenses, or if the level is expected to increase or decrease.

c. Indicate whether the test-year expenses reflect gas DSM expenses or if these are an allocation of electric DSM expenses.

45. For each of the following subaccounts from WPC-2.2, page 120 of 146, provide an explanation of the nature of these subaccounts and the reason(s) for the addition of these subaccounts during the test year.

- a. Account No. 4921-64, Organization Development.
- b. Account No. 4921-67, Administration.
- c. Account No. 4921-68, Systems.
- d. Account No. 4921-69, Strategic Planning.

46. WPC-3.10b shows the determination of the ratio of gas rate base exclusive of facilities devoted to other than ULH&P customers to total company rate base. According to the workpaper notes, the amount shown as Prepayments, line 16, does not include the PSC Assessment and Auto Taxes. Provide a detailed explanation of why these items were excluded in the calculation of the ratio, but included in ULH&P's proposed rate base in this proceeding.

47. WPC-12a provides the calculation of the percentage used for uncollectible accounts expenses in the gross revenue conversion factor. Concerning this percentage:

- a. Prepare a schedule which shows the percentage of the current year gas provision divided by the total gas operating revenues for the test year and the 3 previous calendar years.

- b. Prepare a schedule similar to that in part (a) using the electric provision and total electric operating revenues.

- c. Provide a detailed explanation of why ULH&P proposes to use an uncollectible accounts percentage which reflects both gas and electric amounts in this gas case instead of using a percentage relating solely to gas operations.

48. On page 6 of Ms. Bruegge's testimony are references to savings ULH&P achieves in pipeline demand charges and other demand charges from its use of propane. For the referenced amounts of

savings, provide the workpapers, calculations, assumptions, and other documentation which support the purported savings.

49. On page 10 of Ms. Bruegge's testimony is a discussion of why ULH&P needs a cash working capital allowance. Provide an explanation of whether ULH&P has performed a lead-lag study for any of the components it has included in its proposed cash working capital allowance.

50. On page 23 of Ms. Bruegge's testimony is a discussion of the increase in the proposed rate case expense over that of prior cases. Provide an explanation which identifies specific reasons why ULH&P decided to obtain outside counsel for the current proceeding. Indicate the expected role in this case, if any, for ULH&P's in-house counsel.

51. In the testimony of Frank E. Coyne are several explanations concerning proposed adjustments to remove utility plant and accumulated depreciation related to facilities devoted to other than Kentucky customers. Provide the following information:

a. Explain in detail why ULH&P has not proposed corresponding adjustments to its capitalization related to the elimination of facilities devoted to other than Kentucky customers.

b. Explain in detail why it would or would not be appropriate to make corresponding adjustments to ULH&P's capitalization related to the elimination of facilities devoted to other than Kentucky customers.

52. On page 6 of Mr. Marshall's testimony is a discussion of actions taken by CG&E and ULH&P concerning overtime, travel, and new hiring. Provide the following information:

a. Explain how long CG&E and ULH&P envision these actions will remain in effect.

b. Concerning the limiting of overtime work, indicate where in this application ULH&P has proposed an adjustment to operating expenses reflecting the lower levels of overtime work. If such an adjustment was not proposed, explain in detail why ULH&P did not make such a proposal.

c. Concerning the cancellation of most travel, indicate where in this application ULH&P has proposed an adjustment to operating expenses reflecting the smaller level of travel expenses. If such an adjustment was not proposed, explain in detail why ULH&P did not make such a proposal.

53. On pages 10 and 11 of the testimony of Richard A. Lonneman is a discussion of the costs related to the early retirement program and the involuntary separation. Specifically, on page 11, lines 6 and 7, it is stated, "When the actual costs are know, these adjustments will be revised to reflect actual amounts." Provide an explanation discussing whether ULH&P plans to revise its revenue request at that time.

54. Provide a detailed explanation concerning why ULH&P has included the impacts of proposed changes in its curb box program and meter testing in this case when ULH&P did not seek Commission approval for the changes until September 3, 1992.

55. On pages 15 through 20 of Mr. Lonneman's testimony is a discussion of why ULH&P does not believe it is appropriate to calculate an offset to net operating income for Allowance for Funds Used During Construction ("AFUDC"). Mr. Lonneman has stated that the Commission, in prior Orders, computed the AFUDC offset using the rate of return on rate base. Provide a detailed explanation of how Mr. Lonneman reached this conclusion, considering that in both Case Nos. 90-041⁵ and 91-370⁶ the Commission's calculations were based on the overall rate of return on capital.

56. In Case No. 91-370, the Commission stated that, "[U]LH&P's approach used the AFUDC rate instead of the overall rate of return on capital and did not adjust the increase for the test-year-end electric balance in Account No. 432, AFUDC - Credit."⁷

a. Provide a detailed explanation as to why Mr. Lonneman's calculations concerning the AFUDC offset do not include the effects of the balance in Account No. 432.

b. Explain in detail whether the inclusion of the gas operations balance of Account No. 432 would or would not address Mr. Lonneman's concerns about the AFUDC offset.

57. Provide an explanation as to whether Mr. Lonneman was aware that the Commission's past practice in ULH&P rate cases concerning the computation of the interest synchronization

⁵ Case No. 90-041, Order dated October 2, 1990, pages 35 and 36.

⁶ Case No. 91-370, Order dated May 5, 1992, pages 44 and 45.

⁷ Id., page 45.

adjustment for income tax purposes has been to calculate the adjustment using capitalization rather than rate base.

58. Concerning the Construction Work In Progress ("CWIP") recommendation presented at page 20 of Mr. Lonneman's testimony, lines 5 through 13:

a. Provide copies of authoritative writings and/or decisions by other regulatory bodies which support the recommendation.

b. Provide a detailed explanation of how Mr. Lonneman's proposed treatment of CWIP is different from the treatment proposed by ULH&P for post test period plant additions which was rejected by the Commission in Case No. 90-041.

59. At page 20 of Mr. Lonneman's testimony is a discussion of why ULH&P has not included the proposed adjustment to depreciation expense as an adjustment to the accumulated depreciation. Provide the following information:

a. Explain in detail why the accumulated depreciation adjustment is inconsistent with the AFUDC adjustment.

b. Explain in detail why an adjustment to accumulated depreciation should be used to modify the interest computation for income tax purposes, considering the fact that the Commission in previous ULH&P rate cases has computed the interest adjustment using capitalization instead of rate base.

c. Explain in detail the basis of the statement "[a] benefit (reduction in rate base) is given to ratepayers for which they have not funded the cost."

d. Explain in detail how the adjustment to accumulated depreciation is one sided, since it reflects the normalization of depreciation on plant in service as of test-year end.

e. Explain how ULH&P can object to the accumulated depreciation adjustment on the basis it is a reduction to plant subsequent to the test year, when in this case ULH&P has proposed to recognize post-test-year adjustments to its capitalization.

f. Supply copies of authoritative writings and/or decisions from other regulatory bodies which support ULH&P's position.

60. Concerning the discussion at page 21 of Mr. Lonneman's testimony relative to the Financial Accounting Standards Board ("FASB") Opinion No. 106:

a. Provide all workpapers, calculations, assumptions, and other documents which support the rate base reduction of \$1,075,155.

b. Provide the amount included in test year expenses related to the adoption of FASB Opinion No. 106. Identify all accounts where related expenses were recorded. Include a detailed description of the test year expenses.

c. Provide a detailed explanation of why ULH&P has not proposed or identified any adjustments to the test year related to the adoption of FASB Opinion No. 106. If any proposed adjustment does reflect the adoption of FASB Opinion No. 106, identify the adjustment and the portion of the adjustment related to this adoption.

d. Provide a detailed explanation of the estimated impact of the adoption of FASB Opinion No. 106 on ULH&P, in total and to gas operations. Include all workpapers, calculations, assumptions, and other documents which support the estimated impact. Indicate whether this estimate reflects the impact of the early retirement program and the expected involuntary separations.

61. The response to Item 13 of the September 16, 1992 Order contains a variance report for balance sheet accounts comparing the test year balances to the previous 12 month period. For each account and subaccount listed below, provide a detailed explanation of the reason(s) for the change in the balances.

a. Account No. 101-1721, Off. Furn. Equip. EDP Equip., page 2 of 26.

b. Account No. 101-1731, Autos and Trucks, page 2 of 26.

c. Account No. 101-2552, Meas. & Reg. - Gen. - System, page 6 of 26.

d. Account No. 101-2530, Mains, page 7 of 26.

e. Account No. 101-2590, Services, page 7 of 26.

f. Account No. 101-2601, Meters, page 8 of 26.

g. Account No. 106-24, Gas Distribution, page 12 of 26.

h. Account No. 106-25, Gas General, page 12 of 26.

i. Account No. 106-75, Common General, page 13 of 26.

j. Account No. 108-1710, Structures & Improvements, page 16 of 26.

k. Account No. 108-1721, Off. Furn. Equip. EDP Equip.,
page 17 of 26.

l. Account No. 108-2530, Mains, page 21 of 26.

m. Account No. 108-2590, Services, page 22 of 26.

62. In the response to Item 19(a)(8) of the September 16, 1992 Order, ULH&P indicated that the state income tax return would not be filed until October 15, 1992. Provide the requested copy of the state income tax return for the taxable year ended during the test year, including supporting schedules.

63. Concerning the response to Item 24(b) of the September 16, 1992 Order, for each transaction or group of transactions listed below, provide a detailed explanation of the purpose of the transaction, whether it represents a recurring on-going level of expense, and why the expense should be included for rate-making purposes.

a. Account No. 4930-0026, Vendor #06944, TR 0760, Burson-Marsteller.

b. Account No. 4930-0040, Vendor #17270, TR 0750, West Virginia Dept. of Tax.

c. Account No. 4930-0049, Vendor #01030, TR 0030 & 0160, Globe Business Interiors.

d. Account No. 4930-0049, Vendor #08898, TR 0030 & 0600 & 0610, Tropical Design.

e. Account No. 4930-0049, Vendor #16149, TR 0600, Cushman Enterprises.

f. Account No. 4930-0050, Vendor #04753, TR 0280, Cincinnati Better Bus. Bur. Inc.

g. Account No. 4930-0050, Vendor #04779, TR 0280, Cincinnati Historical Society.

h. Account No. 4930-0050, Vendor #05043, TR 0280, Greater Cincinnati Convention.

i. Account No. 4930-0050, Vendor #17166, TR 0280, Japan Society of Greater Cincinnati.

64. Concerning the response to Item 25 of the September 16, 1992 Order, for each of the organizations listed below, provide a detailed description of the service(s) provided in the test year, explain whether the services provided represent recurring activities, explain whether the level of expense represents an on-going level, and explain why the expense should be included for rate-making purposes.

- a. Anderson Consulting, page 1 of 5.
- b. Arthur Andersen & Co., page 1 of 5.
- c. Burson-Marsteller, page 1 of 5.
- d. Cap Gemini America, Inc., page 1 of 5.
- e. COMDISCO Disaster Recovery, page 2 of 5.
- f. CRESAP, page 2 of 5.
- g. Dektas & Eger, Inc., page 2 of 5.
- h. Development Dimensions Int'l., page 3 of 5.
- i. Gannett Fleming Valuation, page 3 of 5.
- j. H. R. Strategies, page 3 of 5.
- k. Hameroff/Milenthal/Spence, Inc., page 3 of 5.

- l. Hay Group, Inc., page 3 of 5.
- m. Human Synergistics, page 3 of 5.
- n. IMI/CPR, page 3 of 5.
- o. Itron, Inc., page 4 of 5.
- p. Keller and Heckman, page 4 of 5.
- q. Madden, Scott, page 4 of 5.
- r. Market Strategies, Inc., page 4 of 5.
- s. O'Hara, Ruberg & Taylor, page 4 of 5.
- t. SAP America, Inc., page 5 of 5.
- u. Schmidt Consulting Services, page 5 of 5.
- v. Taft, Stettinius & Hollister, page 5 of 5.
- w. The Data Group, Inc., page 5 of 5.
- x. Tower, Perrin, Forster & Crosby, page 5 of 5.

65. In lieu of the information requested in Item 33 of the September 16, 1992 Order, provide a distribution of the test year gas operations' salaries and wages in the manner shown on page 354-002 of ULH&P's FERC Form No. 2.

66. Concerning the response to Item 39 of the September 16, 1992 Order, provide the following information for each officer listed:

a. For each time period listed, the amount of salary included in the total compensation figure.

b. For each time period listed, the amounts of other compensation received, such as the Key Employee Annual Incentive Plan ("KEAIP").

c. For each time period listed, the allocation factors used to assign the compensation to ULH&P.

d. For the test year, the amount of the listed compensation allocated to electric, gas, and common operations. Include an explanation of how the common amounts would be allocated to electric and gas operations.

e. The monthly salary in effect as of test year end.

67. Concerning the response to Item 44 of the September 16, 1992 Order, for each employee benefit listed, provide the following information:

a. The total number of employees participating in the benefit.

b. The total ULH&P test year expense for the benefit, with a breakdown between electric and gas operations.

c. Explain how the benefit expense is allocated between electric and gas operations.

68. Concerning CG&E's KEAIP:

a. Provide copies of the provisions and policy statements concerning KEAIP during the test year.

b. Provide copies of the performance objective targets for calendar years 1991 and 1992. Explain in detail the reason(s) for any changes made in the targets between the two years.

c. Provide copies of the performance evaluation for calendar year 1991. For each objective, indicate whether the evaluation indicated that the objective target was met or not.

69. As part of Item 47 of the September 16, 1992 Order, ULH&P was requested to provide an itemized listing of the costs incurred to date for the preparation of this case. ULH&P responded that no costs had been recorded through August 1992 for the preparation of the rate case. However, Schedule C-10 of the Application shows test year expenses of \$635. Provide the requested rate case information, with the detail and documentation indicated, for all expenses incurred through September 15, 1992.

70. Provide three updates of rate case expenses during this proceeding. Each update will be prepared in the detail and documented as outlined in Item 47 of the September 16, 1992 Order. The due dates for the rate case updates will be:

- a. On November 30, 1992, the update will cover all rate case expenses through November 15, 1992.

- b. On January 19, 1993, the update will cover all additional rate case expenses through December 31, 1992.

- c. Twenty calendar days after the end of the public hearing, the update will cover all additional rate case expenses incurred since the last update.

71. Concerning the response to Items 48 through 50 of the September 16, 1992 Order, for each recommendation discussed in the September 1992 Status Report of the Management Audit Action Plans, provide the following information:

- a. Identify the total recommendation cost to ULH&P, indicating the amount of the cost that is one-time and/or recurring.

b. Identify the total recommendation cost which was or should be allocated to ULH&P gas operations.

c. Identify the total recommendation savings to ULH&P, indicating the amount of the savings that are one-time and/or recurring.

d. Identify the total recommendation savings which was or should be allocated to ULH&P gas operations.

e. Explain the basis for any allocations used in parts (a) through (d) above.

72. Refer to Schedule B-4:

a. Provide details as to what the \$1,036,000 costs represent.

b. Provide a breakdown as to the distribution system including material and labor costs.

c. Provide 11 x 8.5 inch drawings showing the route of the distribution system indicating pipe size and material.

73. On page 12, lines 1 through 8 of her testimony, Ms. Bruegge refers to the year-end customer adjustment included in the calculation of normalized revenues and indicates the adjustment is supported by the testimony of Mr. Ginn.

a. Provide references to the sections of Mr. Ginn's testimony that support or explain the year-end customer adjustment.

b. Provide references to the appropriate schedules or workpapers which support and identify the year-end customer adjustment.

c. Provide a narrative description and explanation of the year-end customer adjustment which delineates its impact on ULH&P's normalized revenues apart from the impact of the weather normalization adjustment.

74. On pages 7 and 8 of his testimony, Mr. Ginn explains how the proposed increase was allocated to each revenue class based on target return indices.

a. Explain the reasons for developing return indices rather than simply using the actual class rates of return as the basis for allocating the increase.

b. Explain the selection of one-half, or 50 percent, as the amount of movement toward 1.0 proposed for the class rate of return indices.

c. Schedule WAG-2 shows the development of the proposed rates of return by rate class. Explain the reasons for the differences in the percentage and index numbers shown under the Proposed Rate of Return column and under the Rate of Return and Return Index at Proposed Rates column.

75. On page 13 of his testimony, Mr. Ginn describes the proposed competitive flexibility provision for Rate IT.

a. Explain how \$0.30 per MCF was chosen as the minimum rate that may be charged.

b. Explain why ULH&P is proposing to eliminate the requirement of an affidavit from the customer.

c. The proposed tariff language refers to "competition from alternative fuels or other sources. . . ." Explain what is meant by other sources.

d. Mr. Ginn states that ULH&P's experience indicates that customers will switch to alternate fuels for a short period of time, even when gas transportation is cheaper, rather than commit to market-based, flexible rates for 12 months, as required under the existing tariff. For the test year ended June 30, 1992, provide listings, by month and customer, of the instances where ULH&P flexed rates as per the current tariff and the instances where the customer opted to use an alternate fuel even though gas, with flexed transportation rates, would be less expensive. Customers may be identified as A, B, C, etc.

e. In modifying the tariff, what consideration was given to requiring that the customer commit to a flexible rate for some shorter period of time such as 3 months, 6 months, etc.?

76. On pages 13 and 14 of his testimony, Mr. Ginn describes the proposed tariff for Rate ICT.

a. Explain the choice of the two-thirds and one-third split of the \$.76 rate from Rate IT to derive the \$.50 and \$.26 rates on Rate ICT, as shown on WPE-5f, compared to some other split such as three-fourths/one-fourth or half and half.

b. Explain why Rate ICT contains no rate flexing provision comparable to that of Rate IT.

c. On page 2 of 3 of the tariff, the section headed Election to Receive Service Under Rate ICT indicates when and how

a customer's base period usage may change. What sort of changed circumstances could result in modification of a customer's base period usage outside of a rate case?

d. Explain why the proposed late payment charge is 1.5 percent rather than 5 percent as for other rate schedules.

77. On pages 14 through 16 of his testimony, Mr. Ginn explains proposed Rider WNA.

a. Explain why the WNA would be applied to bills for the seven months from November through May rather than for a longer or shorter period.

b. Explain why November through May is proposed as the historical period from which actual metered sales and weather normalized sales will be compared.

c. Schedule WAG-6 includes a sample calculation of the proposed WNA for Rate RS. Provide these same type calculations for Rate RS using actual and weather normalized sales for each of the past five heating seasons with the proposed rate of \$.2630 per CCF.

78. On page 16 of this testimony, Mr. Ginn discusses the proposed increase in the bad check charge to \$15.

a. Provide documentation which supports the amounts of \$9 and \$9.50 per check as the amounts charged ULH&P by local banks for processing returned checks.

b. At lines 12 through 15 of page 16, Mr. Ginn states that 73 percent of returned check fees were at \$9.50 per check. Why does this statement refer to only 73 percent of returned checks and what was the fee for the other 27 percent?

79. Per the testimony of witnesses Bruegge and Ginn, the equivalent design day propane entitlement for ULH&P is 23,000 DTH and ULH&P's design day sendout is approximately 145,000 DTH.

a. Per the testimony of Ms. Bruegge, if ULH&P contracted for the 23,000 DTH it would cost approximately \$2,000,000 annually. Does this mean that each DTH of design day demand has a cost of approximately \$87 annually?

b. ULH&P is using its propane inventory to reduce its design day demand by 23,000 DTH. What other measures is ULH&P taking to reduce its design day demand?

c. Has ULH&P given any consideration to using its rate design as a means of encouraging conservation that, in turn, might result in reduced design day demand?

80. Workpapers WPC-3.5a and WPC-3.5b pertain to the adjustment to annualize revenue for rents charged to CG&E.

a. WPC-3.5a indicates there was no revenue included in the test year for rents charged to CG&E and that the agreement between ULH&P and CG&E became effective May 1, 1992. What is the nature of the agreement referred to on WPC-3.5a and what were the arrangements for CG&E's use of ULH&P's properties prior to May 1, 1992?

b. WPC-3.5b shows the computation of charges to CG&E for joint use buildings. Provide schedules 2, 3, 4, 5, and 7 referenced in Column 2 for the various components used to calculate the charges to CG&E.

81. On pages 11 through 13 of his testimony, Mr. Lonneman discusses the elimination adjustments included in Schedule C-3.13.

a. Identify the three most recent ULH&P gas cases prior to Case No. 90-041 in which these types of elimination adjustments were made.

b. Per Workpaper WPC-3.13a, one component of the \$669,542 revenue adjustment is inter-company unaccounted-for gas in the amount of \$74,893. Explain the nature of a revenue account for unaccounted-for gas and provide the rationale for the proposed adjustment to eliminate the \$74,893 in revenue.

82. Workpaper WPE-4a is a summary of sales and revenue statistics for the test year. The column headed Adjustments to Base Revenue includes adjustments (a), (b), and (c) which reduce revenues by \$889,768, \$10,801, and \$35,022, respectfully.

a. These adjustments relate primarily to take-or-pay charges, purchased gas expense, agency revenues, and pipeline demand charges. Explain why these items are reflected as base revenues rather than GCR revenues.

b. These adjustments relate to purchased transportation revenues and non-purchased transportation revenues. Per WPE-4a, normalized test-year volumes for these transportation classifications are 444,236 and 1,746,657 MCF, respectively. Provide the corresponding volumes for calendar years 1989, 1990, and 1991, and for the 12 months ended September 30, 1992.

83. Provide workpapers for the three correlation studies performed by Mr. Mosley on the relationship between debt and equity risks.

84. Beginning on page 26 of his testimony, Mr. Mosley discusses the issue of flotation costs.

a. Identify the factors that influence flotation costs.

b. Explain how flotation costs are affected by risk.

85. Refer to Mr. Mosley's Testimony, page 30. Provide copies of the research on which Mr. Mosley relies to support his position on flotation costs.

86. In addition to the jurisdictions in which Mr. Mosley has testified, as indicated on page 32 of this testimony, what analysis has ULH&P performed on the treatment of flotation costs by other jurisdictions? Provide support for any results or conclusions.

87. Refer to Dr. Stevie's testimony. Provide the NOAA documentation which explains the procedures for weather normalization, including an explanation for how preliminary figures for degree days are revised to obtain final figures.

88. Concerning the question and answer on page 10, beginning on line 13:

a. Perform the weather normalization adjustments using NOAA's preliminary 1961-1990 figures of 5248 heating degree days and 996 cooling degree days.

b. Provide a side-by-side comparison of the results with adjustments derived from the 1965-1980 period.

89. For the final NOAA figures for the 1951-1980 period, provide all corresponding preliminary figures released prior to the final figures for this period.

90. Refer to the testimony of Mr. Van Curen and the peak and average cost-of-service study. On page 3 of 11 in schedule 14:

a. Explain and illustrate the derivation of the weights for factors K403 and K405.

b. In the testimony on page 10, lines 8-19, it is stated that the zero-intercept method is used to obtain a 20 percent - 80 percent split for customer and demand for allocation of plant. Provide and explain the regression results which document this allocation split.

91. On page 4 of 11 in schedule 14:

a. Provide the regression results and a written explanation of all variables used that have been referenced in footnote A.

b. Provide an explanation tying the regression results to columns 1 and 4.

c. Has ULH&P developed this methodology for calculating Peak Day MCF "in house"? If not, provide documents (NARUC, AGA, FERC, etc.) demonstrating that this technique is an acceptable alternative to undertaking the time and expense of collecting actual data from the field.

d. List any other Commissions that have accepted this alternative methodology for calculating individual rate class contributions to the system peak.

92. On page 5 of 11 in schedule 14:

a. Using Gas Rate Fundamentals by the American Gas Association, 4th ed. Table 7-7 pages 144-146 as a reference for ULH&P's methodology, is there any data to support ULH&P's implicit assumption that the rate class breakdown of the total system peak day demand (which was furnished by the ULH&P gas department, as stated on page 4 of 11 footnote B) is identically equal to the non-coincident peak ("NCP") demands of each rate class, as well as the assumption that the total system peak is equal to the sum of the individual NCP demands?

(1) If so, provide an explanation, the data, and the graphs illustrating that this is a valid assumption.

(2) If not, provide an explanation of why ULH&P believes that it is reasonable to assume that equating individual rate class coincident and non-coincident peak demands is valid and would not skew cost allocations among the rate classes in a manner inconsistent with the Peak and Average methodology.

(3) If in the absence of actual load research data, there are any other methods (aside from ULH&P's) available that may be used to obtain rate class demand estimates, provide an explanation of each reasonable alternative.

93. On page 6 of 11 in Schedule 14:

a. The FERC Form 2 report is on a calendar year basis. Are the listed labor dollar amounts drawn from this report?

(1) If so, show the adjustments ULH&P undertook to convert the calendar year figures to corresponding test year figures.

(2) If the labor dollar amounts have not been adjusted to conform with the filed test year period, provide the adjusted labor figures and the recalculated A&G factor (K411).

94. On schedule 13, items P129, PT29, P229, G229, W749, P349, C319, C331 and K669 are easily traceable to schedule 14. Provide an explanation and derivation of the remaining items in schedule 13.

Done at Frankfort, Kentucky, this 21st day of October, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director